

1969 ANNUAL REPORT

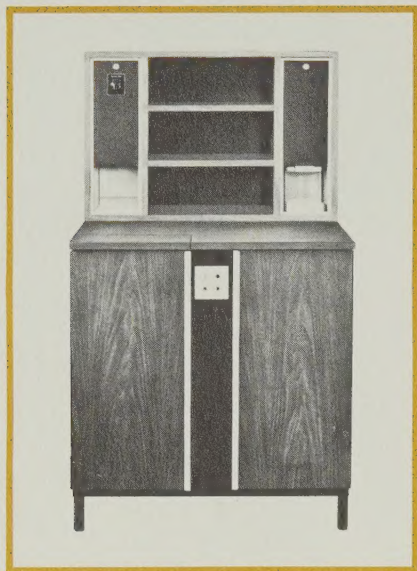


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Captain International Industries Ltd.



Captain International Industries Ltd.



OFFICERS AND DIRECTORS

Keith Baldwin
G. Arnold Armstrong
Alexander H. Lenec

President and Director
Chairman of the Board and Director
Vice-President and Director

HEAD OFFICE

Suite 440-890 West Pender Street,
Vancouver 1, B.C. Canada.

REGISTERED OFFICE

1250—One Bentall Centre, 505 Burrard Street,
Vancouver 1, B.C., Canada.

TRANSFER AGENT AND REGISTRAR

The Guaranty Trust Company of Canada
624 Howe Street, Vancouver 1, B.C., Canada.



CAPTAIN INTERNATIONAL INDUSTRIES INC.

(a wholly-owned subsidiary of Captain International Industries Ltd.)

OFFICERS AND DIRECTORS

Keith Baldwin
G. Arnold Armstrong
Alexander H. Lenec
Jack P. Morgan
Rex Yannarell

President and Director
Vice-President, Secretary & Director
Vice-President, Treasurer & Director
Vice-President, Operations & Director
Vice-President, Marketing & Director

HEAD OFFICE AND MANUFACTURING PLANT

Commerce Drive, Montgomeryville, Pennsylvania 18936, U.S.A.

REGISTERED OFFICE

1418 Packard Building, Philadelphia, Pennsylvania 19102, U.S.A.

CAPTAIN HOTEL SYSTEMS N.V.

(50% owned by Captain International Industries Ltd.)

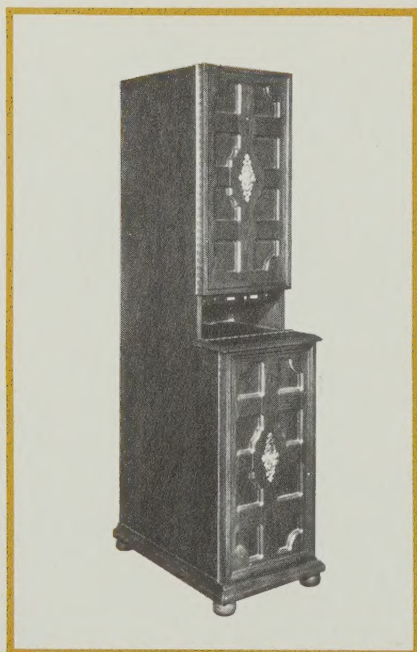
OFFICERS AND DIRECTORS

Ir. R. van Dijk
Keith Baldwin
W. ch. J.M. van Lanschot
G. Arnold Armstrong
B.W.S. Irwin
J.A. Nieuwenhuis

Chairman of the Board
Director
Director
Director
Director
Managing Director

HEAD OFFICE

N.D.S.M. Gebouw, Klaprozenweg 75, Amsterdam-Noord.
Telephone: 020-270233.





Captain International Industries Ltd.

PRESIDENT'S REPORT

1969 was a year of continued progress for Captain International Industries Ltd.

Economic conditions in the second half of the year hampered our growth, but we adapted to these new conditions without serious interference to our long-range plans. Income showed a 250 per cent increase over 1968 and results in the first months of 1970 show that the new policies adopted by our Company are having a positive effect on operations.

The introduction of a proprietary item such as the "Bell Captain Service Centre", is an expensive educational process, as reflected by the sales costs as shown in the Financial Statements. The majority of these pioneering costs are behind us. Our equipment now is in use in 2,500 bedrooms around the world. We are represented in 62 hotels/motels and have started programs with 15 national and international chains. Reaction from both managements and guests is highly favorable.

We are continuing to expand our product lines. Late in 1969, Captain International introduced a number of new systems at the Annual Hotel and Motel Exposition in New York. Industry response to these systems was extremely encouraging.

1969 also saw several states and Canadian provinces allow liquor to be amongst the many products dispensed through the "Bell Captain Service Centre". The most recent state to give its approval was Pennsylvania, the home of our subsidiary, Captain International Industries Inc. Hotels/motels in states where liquor permission has been granted have found that the "Bell Captain Service Centre" is designed to guarantee the observance of appropriate liquor regulations. Such positive evidence will aid Captain International in future representations in other states and provinces.

The use of liquor in the "Bell Captain Service Centre" has been accepted readily in other areas of the world. Much effort was directed towards the development of this international market, as reflected by the administration and general expenses as shown in the Financial Statements.

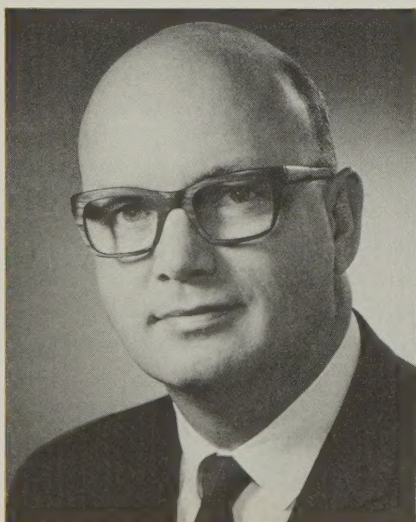
In the Caribbean, scene of our first major installation, a total of 13 hotels are using our equipment.

Through trade shows and personal contact, Captain Hotel Systems N.V., which is 50 per cent owned by Captain International, has brought our products to the attention of European hoteliers. It is anticipated that CHS will soon be in a position to set up its own manufacturing facilities in Europe.

In March, 1970, we successfully concluded an agreement with Burmah Oil Trading Company to act as our distributors in the United Kingdom and Eire. Through this association, your Directors believe we have strengthened our international marketing network. Later this year, we hope to report significant agreements covering Australia, Mexico and Japan.

SALES

Captain International is poised to make rapid advances in the next few years. We are no longer an unknown Company attempting to sell a unique concept to a cautious industry. Our "Bell Captain Service Centre" now is recognized as an answer to one of the hotel/motel industry's most pressing problems, "Room Service".





Captain International Industries Ltd.

We are well aware of our need for greater volume. The tight money market and high interest rates brought delays and, in some cases, cancellations in construction, thus causing a negative influence on our projections for the second half of 1969. In order to pick up this slack and bring about continued growth, we will be multiplying our field sales force by setting up marketing agencies throughout the United States, our prime market area.

These sales organizations are now calling on hotel/motel owners and managers daily, and with the new systems developed last year they no longer have to operate within the restrictions of a limited product line.

Many major chains have a number of important new hotel/motel and hotel/motel expansion programs planned for the next three years. Part of our time and effort was spent with the designers and planners of these projects. In many cases, our equipment is included in the original designs for these hotels/motels.

NEW PRODUCTS

The new systems being produced by our research and development departments are designed specifically for an industry in dire need of automation. Once these new systems have been marketed successfully, we will continue to introduce other systems of equal benefit to the hospitality industry.

The *Continental Breakfast* unit rounds out the guest appeal of the "Bell Captain Service Centre". This unit permits the serving of hot coffee and tea, juices and hot Danish pastries for breakfast, and sandwiches and snacks later in the day.

Besides being of obvious convenience to guests, the Continental Breakfast unit cuts labor costs for hotels/motels, particularly early-morning room service costs.

The unit can be added to existing "Bell Captain Service Centres" and several hotels/motels already have ordered this new guest service.

Hotel FACS 1 is an in-house electronic accounting system with a central memory device capable of accepting and storing guest charges, as well as cash and credit card transactions from remote service areas such as restaurants, cocktail bars and coffee shops, eliminating the many duplicate postings presently required. The guest's bill is prepared at check-out by a touch of a button, substantially speeding up check-out procedures.

As a bonus, the system provides hotel/motel management with all the data needed for instant departmental analysis of the hotel/motel's operations.

Development of the *Electronic Scanning System* places Captain International well ahead of all competitors in the field of hotel/motel communicators. Small in size and inexpensive to install, our new equipment sends commands to and accepts feedback information from up to 9,999 rooms per keyboard in a matter of seconds.

Three of the channels of the multi-channel system are used for message service, wake-up service, and room status service. The remaining channels are reserved for other developments by our Research Department.

The "Bell Captain Service Centre" can rightly be called a service and entertainment centre, for through a marketing agreement with CBS/Reditune, the Bell Captain is now able to deliver a vast library of hifi music to hotel/motel bedrooms. By adding a speaker to the dispenser chamber of the Bell Captain and a volume control within the central feature strip, our units can relay music provided from the CBS/Reditune tape transport located in the lobby area.

OUTLOOK

The inaugural flight of the Boeing 747 brought home the reality of mass travel.

During the week of the hotel/motel show in New York, hotel and travel leaders addressed an "International Symposium on Hotel and Travel in the 1970's".

One of the speakers, a vice-president with an international hotel chain, had these comments to make:

"The Boeing 747, scheduled for its first flight in early 1970, is going to change our way of life. It's been said before, but few of us believe it. The jets will be off the ground but no one in the international hotel industry is going to be ready for them when they land. I'm talking about one month from now.

"Why? Because the hotel industry has always been the last to see the future and the future has already happened. Tomorrow is today and the 747 is proving it. We're not prepared."

Captain International has been preparing for tomorrow for the past three years. Tomorrow has arrived.

CAPTAIN INTERNATIONAL INDUSTRIES LTD.

Keith Baldwin,
President



Captain International Industries Ltd.

CAPTAIN INTERNATIONAL'S BOOTH AT THE ANNUAL HOTEL/MOTEL EXPOSITION IN NEW YORK, IN NOVEMBER, 1969, FEATURING HOTEL FACS 1, THE NEW ELECTRONIC SCANNING SYSTEM AND THE CONTINENTAL BREAKFAST UNIT.





Captain International Industries Ltd. (and i

CONSOLIDATED BALANCE

ASSETS

		<u>1968</u>
Current:		
Cash	\$ 41,566	\$ 65,831
Short-term deposits	60,000	900,000
Trade notes and accounts receivable — Note 1	248,365	72,317
Inventories — Note 2	629,309	617,568
Due from affiliated company	35,882	10,738
Prepaid expenses and deposits	4,740	3,052
	<u>1,019,862</u>	<u>1,669,506</u>
Lease-sale contracts receivable, less \$124,882 included in current assets (1968 \$31,654) — Note 1	437,270	125,728
Equipment on lease with customers, at cost less accumulated depreciation of \$50,383 (1968 \$12,354) — Notes 1, 3 and 4	364,299	224,831
Investment in unconsolidated 50% owned foreign company — at cost — Note 4	—	—
Fixed — Note 5:		
Property and equipment, at cost less accumulated depreciation	146,089	155,552
Other:		
Patents, at cost less accumulated amortization	56,806	42,362
Organization expenses, less accumulated depreciation	6,223	6,557
	<u>\$ 2,030,549</u>	<u>\$ 2,224,536</u>

On behalf of the Board:

"B. K. BALDWIN" Director

"G. ARNOLD ARMSTRONG" Director

ly-owned subsidiary Captain International Industries, Inc.)

AS AT DECEMBER 31, 1969

LIABILITIES

		1968
Current:		
Notes payable to bank	\$ 215,183	\$ —
Accounts payable and accrued liabilities	213,023	186,814
Current portion of long-term notes and advances payable	59,101	6,067
	<u>\$ 487,307</u>	<u>\$ 192,881</u>
Long-term obligations — Note 3		
Notes payable	136,606	—
Advances from bank	280,357	210,969
	<u>416,963</u>	<u>210,969</u>
Less: Current portion	59,101	6,067
	<u>357,862</u>	<u>204,902</u>
Deferred interest income	111,190	35,799

SHAREHOLDERS' EQUITY

Share capital:		
Authorized		
5,000,000 shares of no par value		
Issued and fully paid — Note 6		
2,756,825 shares (1968 2,731,200)	\$ 3,148,091	3,107,111
Deficit	<u>2,073,901</u>	<u>1,316,157</u>
	<u>1,074,190</u>	<u>1,790,954</u>
	<u>\$ 2,030,549</u>	<u>\$ 2,224,536</u>

The notes to the consolidated financial statements are an integral part thereof.

AUDITORS' REPORT

The Shareholders,
Captain International Ltd.

We have examined the consolidated balance sheet of Captain International Industries Ltd. and its wholly-owned subsidiary, Captain International Industries, Inc. as at December 31, 1969 and the consolidated statements of operations and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change, which we approve, described in Note 1 to the financial statements.

April 6, 1970, Vancouver, B.C.

"TOUCHE ROSS & CO"

**CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1969**

		1968
Source of funds:		
Sale of shares	\$ 40,980	\$ 2,169,090
Borrowings under long-term obligations — Note 3	283,227	231,462
Decrease in working capital	944,070	—
	<u>\$ 1,268,277</u>	<u>\$ 2,400,552</u>
Application of funds:		
Net loss for the year	\$ 757,744	\$ 709,367
Less: Expenses not requiring an outlay of funds:		
Depreciation of leased equipment	\$ 38,029	12,354
Depreciation of fixed assets	41,415	33,368
Amortization of patents and incorporation costs	5,162	4,188
Increase in deferred interest income	<u>75,391</u>	<u>35,799</u>
	159,997	85,709
	<u>597,747</u>	<u>623,658</u>
Increase in lease sale contracts receivable due after one year — net	311,542	125,728
Additions to:		
Fixed assets	31,952	92,130
Leased equipment	177,497	237,185
Patent costs and incorporation costs	19,272	10,526
Current maturities on long-term obligations	130,267	26,560
Increase in working capital	—	1,284,765
	<u>\$ 1,268,277</u>	<u>\$ 2,400,552</u>
Working capital — December 31, 1967	\$ 191,860	
— December 31, 1968	1,476,625	
— December 31, 1969	532,555	

**CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1969**

Income — Note 1:		
Net sales	\$ 782,172	\$ 311,687
Rental income	66,857	28,032
	<u>849,029</u>	<u>339,719</u>
Cost and expenses:		
Cost of sales and costs relating to rentals including production start-up costs	773,059	456,586
Selling	379,553	241,005
Administrative and general	373,140	330,647
Research and development	112,161	66,646
	<u>1,637,913</u>	<u>1,094,884</u>
Operating loss	788,884	755,165
Interest income — Net	31,140	45,798
Net loss for the year	757,744	709,367
Deficit at January 1	1,316,157	606,790
Deficit at December 31	<u>\$ 2,073,901</u>	<u>\$ 1,316,157</u>

The notes to the consolidated financial statements are an integral part thereof.



Captain International Industries Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1969

Note 1 — Accounting Policies:

The Company manufactures and sells or leases dispensing machines and electronic equipment for use in hotels and motels. In 1968, the first full year of operations, all leases were accounted for under the operating method under which income was recognized over the period of the lease on a straight-line basis. During 1969, the Company elected to account for non-cancellable leases with purchase options as sales in the year in which the equipment was placed in service at the present value of the payments to be received under the lease. Retroactive effect has been given to the change which increased revenues by \$115,228 and net loss by \$10,196 from the figures previously reported for 1968.

Note 2 — Inventories

Inventories are priced at the lower of cost (first-in, first-out method) and net realizable value and consisted of:

	1969	1968
Raw materials	\$159,762	\$138,623
Work in progress	355,206	210,411
Finished goods	114,341	268,534
	<u>\$629,309</u>	<u>\$617,568</u>

Note 3 — Long-Term Obligations

Equipment lease contracts and the related leased equipment which has an original cost of \$68,477 are pledged as collateral for notes payable to a bank.

Under an agreement with a bank, funds have been received which are designated as proceeds of sale with full recourse of certain lease agreements. Title to the equipment has been encumbered by a first lien on the equipment which has an original cost of \$257,037. Since the bank does not succeed to title to the leased equipment, the Company has elected to treat such advances as borrowed funds and to account for revenues from the agreements involved as described in Note 1. The advance is liquidated by application of funds received from leases.

The Company was also guarantor in the amount of \$57,334 at December 31, 1969 under financing operations arranged for one of its distributors.

Note 4 — Investment in Unconsolidated 50% Owned Foreign Company

During 1969, the Company acquired a 50% interest in Captain Hotel Systems NV, a corporation organized in the Netherlands, in exchange for a license to manufacture and sell the Company's products. The Netherlands company assigned a value of \$52,815 to this license in its unaudited financial statements as of December 31, 1969, at which time the reported net assets amounted to approximately \$56,000 including the license. The unaudited statement of operations of the Netherlands company for the year 1969 shows a limited amount of gross revenue and a net loss of approximately \$50,000 without any amortization of the cost of the license. Accordingly, the Company has not recognized any gain on the assignment of the license to the Netherlands company and has therefore not assigned a value to its investment in that company.

Note 5 — Fixed Assets

Depreciation expense totalled \$41,465 for 1969 (1968 — \$33,406). Details of property and equipment are as follows:

	1969	1968
Machinery and equipment	\$ 76,162	\$ 57,414
Furniture and fixtures	41,679	35,245
Tooling, dies and moulds	79,281	75,378
Leasehold improvements	29,764	26,897
	<u>226,886</u>	<u>194,934</u>
Less: Accumulated depreciation	<u>80,797</u>	<u>39,382</u>
	<u>\$146,089</u>	<u>\$155,552</u>

Depreciation on equipment leased to customers amounted to \$38,029 for 1969 (1968 \$12,354.)



Captain International Industries Ltd.

Note 6 — Share Capital

By a special resolution of the Company the authorized share capital has been increased from 3,000,000 shares of no par value to 5,000,000 shares of no par value.

During the year the Company has issued shares for cash considerations as follows:

	Shares	Cash Consideration
Warrants exercised	2,625	\$ 10,500
Options exercised by employees	23,000	30,480
Shares issued during the year	25,625	40,980
Shares issued at December 31, 1968	2,731,200	3,107,111
Shares issued at December 31, 1969	2,756,825	\$3,148,091

171,575 shares are reserved for the exercise of share purchase warrants, 74,575 shares at \$4.00 per share expiring November 30, 1972, and 97,000 shares at \$8.45 per share expiring July 8, 1973.

65,100 shares are reserved for options granted to employees of the Company. The two key employees mentioned in Note 9 have options for 20,000 shares each at 75¢ per share, exercisable to January 31, 1972 at the rate of 10,000 shares per year on a cumulative basis from year to year. Other employees have options for 17,100 shares at \$5.10 per share, expiring on February 26, 1973, 1,000 shares at \$8.50 per share expiring July 17, 1973, and 7,000 shares at \$5.40 per share expiring July 15, 1974. The options are exercisable at annual rates of 3,500 shares, 200 shares and 1,400 shares respectively and are on a cumulative basis from year to year. Options to purchase 11,000 shares have been cancelled.

Note 7 — Income Taxes

At December 31, 1969 the Company had tax loss carry forward of approximately \$2,018,000 available as offsets against taxable income in future years. The loss carry forwards will expire principally during the years 1972 to 1974.

Note 8 — Lease Commitments

On February 1, 1968 the Company entered into a seven and one-half year lease for the rental of manufacturing and office space in Montgomeryville, Pennsylvania, at an annual rental of approximately \$24,840 a year, plus taxes, insurance and maintenance and repairs. The Company has the option of purchasing the facility in 1973 for a consideration of \$226,800.

Note 9

The Company has entered into employment contracts with two key employees, Vice-President Operations and Vice-President Marketing. The contracts which commenced February 1, 1967, extend for five years and provide for stock options (as set out in Note 6) salaries and commissions. During the year the Company paid Directors' remuneration of \$6,000.

Note 10

The amounts shown in these financial statements are expressed in Canadian funds. U.S. funds have been converted at \$1.075 Canadian.

Note 11

The Company has entered into an agreement for ten years from September 30, 1965 under which Allen Investments Ltd. will provide management and distribution services for the consideration of a management fee of \$1,000 per month and \$10 for each machine sold or leased on the first 2,000 machines sold during each year and \$8 per machine thereafter.



Captain International Industries Ltd.

WHERE TO MEET YOUR "BELL CAPTAIN"

HILTON INTERNATIONAL

Caribe Hilton	Puerto Rico
Curacao Hilton	Netherlands Antilles
Dorado Hilton	Puerto Rico
Mayaquez Hilton	Puerto Rico
San Jeronimo Hilton	Puerto Rico
Trinidad Hilton	West Indies
Virgin Isle Hilton	Virgin Islands
Zurich Hilton	Switzerland
Amsterdam Hilton	Netherlands

DUTCH INNS

Dutch Inn	Collinsville, Virginia
Dutch Inn	Monterey, California
Dutch Inn	Hendersonville, North Carolina
Dutch Inn	San Juan, Puerto Rico
Georgetown Manor	Washington, D.C.

ESSO MOTOR HOTELS

Eso Motor Inns	Edinburgh, Scotland
Eso Motor Inns	Amsterdam, Netherlands
Eso Motor Inns	Maidenhead, England

TRAVELODGE CORPORATION

** Travelodge Ala Moanna	Honolulu, Hawaii
Travelodge Franklin Mall	Somerset, New Jersey
Travelodge Hilo	Hilo, Hawaii

HOWARD JOHNSON'S MOTOR LODGES

Howard Johnson's North Miami	Miami, Florida
Howard Johnson's Motor Lodge	Oshkosh, Wisconsin
Howard Johnson's Motor Lodge	Punta Gorda, Florida
** Howard Johnson's	Amsterdam, Netherlands

RAMADA INNS

* Ramada Inn	Columbia, South Carolina
* Ramada Inn	Neenah, Wisconsin

HILTON HOTEL CORP.

Quality Court	Scranton, Pennsylvania
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INTERCONTINENTAL HOTELS CORP.

Hotel Intercontinental	Curacao, Netherlands Antilles
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QUALITY MOTELS

* Quality Court	Walton Beach, Florida
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SHERATON CORP.

Villa's Sheraton	Fort Myers, Florida
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SWISS CHALET INC.

Hotel Pierre	Santurce, Puerto Rico
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KING OF THE ROAD ENTERPRISES

King of the Road Hotel	Nashville, Tennessee
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MOTOR INN MANAGEMENT INC.

* Gold Key Inn	Orlando, Florida
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HEMISPHERE HOTELS INC.

* Coral Harbor	Miami, Florida
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GOTHAM HOTELS

Dupont Plaza Hotel	Miami, Florida
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ASSOCIATED FEDERAL HOTELS

La Concha Hotel	San Juan, Puerto Rico
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CONTINENTAL INNS OF AMERICA

Hilltop Motor Inn	Baltimore, Maryland
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NORTH AMERICAN HOTELS LTD.

Latham Hotel	Philadelphia, Pennsylvania
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DOWNTOWNER CORPORATION

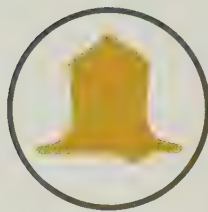
Downtowner DuVieux Carre Hotel	New Orleans, Louisiana
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PLUS

Avalon Inn	Warren, Ohio
Bethlehem Hotel	Bethlehem, Pennsylvania
Bristol Motor Inn	Bristol, Pennsylvania
Cal-Neva Lodge	Lake Tahoe, Nevada
Camelot Inn	Poughkeepsie, New York
Causeway Inn	Tampa, Florida
Chanticleer Inn	Eagle River, Wisconsin
Chase-Park Plaza	St. Louis, Missouri
Cinerama Coral Reef	Honolulu, Hawaii
Chula Vista	Wisconsin Dells, Wisconsin
Downtowner Motor Inn	Carson City, Nevada
Downtown Motor Inn	Rhineland, Wisconsin
Dartmoor Inn	Fond du lac, Wisconsin
El Hato Rey Hotel	Hato Rey, Puerto Rico
Executive Inn	Sheboygan, Wisconsin
Grapetree Bay Hotel	Virgin Islands
Killearn Golf and Country Club	Tallahassee, Florida
Kings Bay Yacht Club	Miami, Florida
LaSalle Hotel	Montreal, Quebec
Master Roberts Hotel	London, England
Miami Airways Hotel	Miami Springs, Florida
* North Star Inn	Minneapolis, Minnesota
Pioneer Inn	Oshkosh, Wisconsin
Regency Hotel	San Juan, Puerto Rico
Rijn Hotel	Amsterdam, Netherlands
Safari Hotel	Milwaukee, Wisconsin
Skyline Hotel	St. Johns, Newfoundland
Statler Inn	Cornell School of Hotel Administration
Walbers on the Delaware	Essington, Pennsylvania
William Hilton Inn	Hilton Head Island, S.C.

* Installation Pending

** Communicators Only.



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Captain
International
Industries Ltd.

CAPTAIN INTERNATIONAL INDUSTRIES LTD.

Suite 600-890 West Pender Street, Vancouver 1, B.C.

Telephone (604) 682-6861

REPORT FOR
FIRST SIX MONTHS
1969

Printed in Canada

CAPTAIN INTERNATIONAL INDUSTRIES LTD.

(and its wholly owned subsidiary Captain International Industries Inc.)

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

For The Six Months Ended June 30, 1969
(Prepared Without Audit)

1969

INCOME

Net Sales	\$ 185,615.00
Rental Income	50,373.00
	<u>235,988.00</u>

COSTS AND EXPENSES

Cost of sales and costs relating to rentals	\$ 196,799.00
Selling	174,662.00
Administrative and general	161,262.00
Research and development	47,362.00
	<u>580,085.00</u>

OPERATING LOSS \$ 344,097.00

INTEREST INCOME — Net 17,165.00

NET LOSS FOR THE PERIOD 326,932.00

DEFICIT at January 1 1,305,961.00

DEFICIT at June 30 1,632,893.00

This statement does not include comparative figures as at June 30th, 1968, as the company's subsidiary was not in full operation for the six months then ended, and comparative figures are not meaningful.

CAPTAIN INTERNATIONAL INDUSTRIES LTD.

(and its wholly owned subsidiary Captain International Industries Inc.)

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Six Months Ended June 30, 1969
(with comparative figures for 1968)
(Prepared Without Audit)

1969

1968

SOURCE OF FUNDS

Sale of shares and share warrants	\$ 38,980.00	\$1,940,500.00
Proceeds on sale of equipment lease contracts	99,382.00	104,526.00
Recoveries on service units	— — — —	2,885.00
Unearned rental income	— — — —	24,364.00
	<u>\$ 138,362.00</u>	<u>\$2,072,275.00</u>

APPLICATION OF FUNDS

Net loss for the period	\$ 326,932.00	\$ 232,400.00
Less expenses not requiring an outlay of funds		
Depreciation and amortization	38,772.00	5,006.00
	<u>288,160.00</u>	<u>227,394.00</u>

ADDITIONS TO

Fixed Assets	19,357.00	140,634.00
Leased equipment	363,135.00	— — — —
Tooling costs and other assets	1,428.00	14,218.00
	<u>\$ 672,080.00</u>	<u>\$ 382,246.00</u>

INCREASE (DECREASE)

IN WORKING CAPITAL \$ (533,718.00) \$1,690,029.00

WORKING CAPITAL —

January 1st	\$1,456,604.00	\$ 128,884.00
June 30th	922,886.00	1,818,913.00

CAPTAIN INTERNATIONAL INDUSTRIES LTD.

INTERIM REPORT

For The Six Month Period Ending June 30, 1969



TO THE SHAREHOLDERS:

The emphasis placed on marketing during the first half of 1969 produced results.

Orders ~~booked~~ and scheduled for future delivery totalled \$2.45 million during this period compared with orders worth ~~\$2.2 million~~ received during the whole of 1968. The total value of these contracts reflect direct sales, distributor sales and sales made on a five-year lease basis.

Shipments of "Bell Captains" and "Captain Communicators" also made a satisfactory improvement in the first six months. During this period, units with a total worth of \$713,051 left our plant as against \$168,395 shipped in the comparable period last year and \$614,000 for the full 1968 year.

As at June 30th, "Bell Captains" were operating in 40 hotels, and orders booked, but not delivered, had a total value of \$3.32 million, giving Captain a healthy base for the future.

Based on the results achieved in the first half of 1969, your Directors are confident that we will achieve our aim of creating a positive cash flow this year. However, as payments for the majority of our units are taken into income over a period of 60 months, Captain International will not show a net profit for this year.

Captain Hotel Systems N.V., incorporated in the Netherlands earlier this year, is now in operation. Judging by the enquiries already received, this new organization, which is 50 per cent owned by Captain International, should make a generous contribution to our future growth. In the United Kingdom, our distributors, Quickmaid Rental Services Ltd., will be placing "Bell Captains" in five hotels before the end of August.

Our Research Department has been developing new systems and equipment specifically aimed at improving the efficiency of both guest services and the internal operation of hotels/motels. The first results of these efforts, more automated systems, will be introduced to the market at Hotels/Motels Shows during the second half of 1969.

The need for greater service-oriented systems was highlighted in "Operation Breakthrough", a 1969 research study commissioned by the American Hotel and Motel Association. The forward to this comprehensive industry study notes that the researchers "had observed an industry facing a market of tremendous potential, beset on every side by rising costs and declining service, operating in an era of truly dynamic change, that is hoping for, but not stimulating, the technological and management breakthrough to solve the problems ahead."

By taking the initiative and working closely with several hotel/motel chains in the development of our new products, Captain International will be ensured a share of the dynamic growth predicted for the hotel/motel industry.

Respectfully,

"KEITH BALDWIN".

President.

August 15, 1969

